

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 AID-05 EB-08 TRSE-00  
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01  
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
DODE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 STRE-00  
/092 W

-----045950 191911Z/43

O R 191656Z MAY 78  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC IMMEDIATE 5776  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY MADRID  
AMEMBASSY PARIS  
USMISSION GENEVA  
AMEMBASSY BRUSSELS

UNCLAS SECTION 1 OF 2 LISBON 3754

PARIS FOR OECE  
BRUSSELS FOR USEC  
DEPT. PASS TREASURY FOR SYVRUD  
DEPT. PASS EXIMBANK FOR ALBRIGHT  
GENEVA FOR MTN DEL

E.O. 11652: N/A  
TAGS: FN, ECON, PO  
SUBJ: IMF AGREEMENT: GOP RELEASES LETTER OF INTENT

REF: (A) LISBON 3478; (B) LISBON 3395; (C) LISBON 2798

BEGIN SUMMARY. GOP HAS RELEASED TEXT OF ITS LETTER OF INTENT TO THE IMF IN SUPPORT OF SECOND TRANCHE STANDBY AGREEMENT.  
LETTER COMMITS GOP TO: LIMITING DOMESTIC CREDIT EXPANSION TO MAXIMUM 157 BILLION ESCUDOS BETWEEN DEC. 31, 1977 AND END OF PROGRAM PERIOD (MARCH 31, 1979), A 21 PERCENT INCREASE DURING UNCLASSIFIED

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CALENDAR 1978, AND A 24.1 PERCENT INCREASE IN 15-MONTH PERIOD ENDING MARCH 31, 1979; LIMITING PUBLIC (NON-ENTERPRISE) SECTOR CREDIT EXPANSION TO MAXIMUM 28.5 PERCENT DURING CALENDAR 1978, AND 41.6 PERCENT FROM YEAR END 1977 THROUGH MARCH 31, 1979; RAISING INTEREST RATES (ALREADY ANNOUNCED BY BANK OF PORTUGAL AND REPORTED REF A); LIMITING NET EXTERNAL BORROWING TO U.S. \$945 MILLION DURING CALENDAR 1978 AND 1.1 BILLION FROM END

OF 1977 THROUGH END OF PROGRAM PERIOD; PHASING OUT IMPORT SURCHARGE SCHEME AND LIFTING ADMINISTRATIVE IMPORT BARRIERS ON GOODS AND SERVICES NOT SUBJECT TO QUANTITATIVE RESTRICTIONS; ACHIEVING CURRENT ACCOUNT BUDGET SURPLUS WHILE RESTRAINING OVERALL BUDGET DEFICIT TO NOMINAL 1977 LEVEL.  
END SUMMARY.

1. ON MAY 18 MINISTRY OF FINANCE RELEASED TO NEWS MEDIA TEXT OF GOP MAY 8 LETTER OF INTENT TO IMF. FINANCE MINISTER CONSTANCIO IS SCHEDULED TO ADDRESS THE NATION MAY 19 TO EXPLAIN THE LETTER'S IMPORT. FOLLOWING SUMMARIZES LETTER'S MAJOR POINTS.

2. MONEY AND CREDIT TARGETS: FOLLOWING TABLE PRESENTS EXPLICIT GOP MONETARY AND CREDIT TARGETS (ITEMS (A) THROUGH (C) IN BILLIONS OF ESCUDOS; ITEM (D) IN MILLIONS OF U.S. \$):

	1977				
	12/31	1978	1979		
(A) NET BANK CREDIT (ACTUAL)	6/30	9/30	12/31	3/31	
OUTSTANDING	654	701.6	738.6	795.7	811.4
CHANGE	-	47.6	37	57.1	15.7
PERCENT CHANGE	-	7.3	5.3	7.7	2.0

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(B) NET BANK CREDIT 129.8 143.8 148.8 166.8 183.8  
TO PUBLIC NON-  
ENTERPRISE SECTOR

CHANGE	-	14.0	5.0	18.0	17.0
PERCENT CHANGE	-	10.8	3.5	12.1	10.2

(C) MONETARY BASE 147.2 143.6 143.6 151 149.2  
CHANGE - -3.6 NIL 7.4 -1.8

PERCENT CHANGE - -2.4 NIL 5.2 -1.2

(D) BANKING SYSTEM'S  
NET FOREIGN  
LIABILITIES 1,352 1,922 2,092 2,297 2,457

CHANGE	-	570	170	205	160
PERCENTAGE CHANGE	-	42.2	8.8	9.8	7.0

IN ORDER BETTER TO CONTROL COMMERCIAL BANK LIQUIDITY, CENTRAL

BANK HAS RAISED DISCOUNT RATES (REF A), TRIMMED REDISCOUNT FACILITIES, AND INCREASED RESERVE REQUIREMENTS TO 7 PERCENT ON ALL COMMERCIAL BANK DEPOSIT LIABILITIES. MANDATORY LENDING CEILINGS FOR INDIVIDUAL INSTITUTIONS WILL BE INTRODUCED IF NECESSARY.

3. INTEREST RATE POLICY: BANK OF PORTUGAL HAS ALREADY INCREASED INTEREST RATE. CENTRAL BANK WILL ALTER RATER AS NECESSARY TO HELP CONTROL MONEY GROWTH, DISCOURAGE INVENTORY SPECULATION, AND INHIBIT CAPITAL FLIGHT.

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INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
DODE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 STRE-00  
/092 W

-----046234 191910Z /43

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FM AMEMBASSY LISBON  
TO SECSTATE WASHDC IMMEDIATE 5777  
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UNCLAS SECTION 2 OF 2 LISBON 3754

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DEPT. PASS TREASURY FOR SYVRUD  
DEPT. PASS EXIMBANK FOR ALBRIGHT  
GENEVA FOR MTN DEL

4. EXCHANGE RATE POLICY: GOP WILL PURSUE CRAWLING PEG POLICY FOLLOWING MAY DEVALUATION (REF B). EXCHANGE RATE WILL BE ADMINISTERED SO AS TO CONSTRAIN COMMERCIAL BANK NET FOREIGN LIABILITIES TO LEVELS INDICATED IN 3(D) ABOVE. GOP DOES NOT INTEND TO INDRODUCE MULTIPLE RATES.

5. FISCAL POLICY: GOP WILL REDUCE PUBLIC (NON-ENTERPRISE)

SECTOR BUDGET DEFICIT TO 6 PERCENT OF GDP IN 1978, COMPARED TO 8 PERCENT IN 1977 AND 11 PERCENT IN 1976. TAX MEASURES ALREADY ADOPTED WILL INCREASE REVENUES BY EQUIVALENT OF 2 PERCENT OF GDP IN 1978. RECEIPTS IN EXCESS OF PROJECTIONS UNCLASSIFIED

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WILL APPLIED TO REDUCE THE DEFICIT RATHER THAN TO AUGMENT OUTLAYS.

6. IMPORT POLICY: THE 30 PERCENT IMPORT SURCHARGE CURRENTLY APPLIED TO A LIMITED NUMBER OF IMPORTS WILL BE REDUCED TO 20 PERCENT ON OCTOBER 1, 1978, TO 10 PERCENT ON APRIL 1, 1979, AND ELIMINATED ENTIRELY BY OCTOBER 1, 1979. THE 60 PERCENT SURCHARGE APPLIED ON LUXURY ITEMS WILL BE ELIMINATED GRADUALLY, STARTING IN 1979, IN CONSULTATION WITH THE IMF. THE CEILING AUTHORIZED FOR IMPORTS SUBJECT TO QUANTITATIVE RESTRICTIONS WILL BE RAISED TO 3.4 BILLION ESCUDOS FOR 1978, EXCEPT FOR KNOCKED-DOWN AUTOMOBILES, WHICH WILL REMAIN AT THEIR NOMINAL 1977 ESCUDO VALUE. IMPORT LICENSE REQUESTS FOR RAW MATERIALS AND INTERMEDIATE GOODS WILL BE APPROVED AUTOMATICALLY. GOP WILL STRIVE TO CLEAR UP BACKLOG OF IMPORT LICENSE REQUESTS FOR THESE ITEMS BY END OF JUNE 1978. IT INTENDS ALSO TO EXTEND THIS REGIME BY 6/30/78 TO ALL OTHER ITEMS NOT QUANTITATIVELY RESTRICTED.

7. COPIES OF LETTER OF INTENT BEING POUCED TO ADDRESSEES.

COMMENTS FOLLOW SEPTEL.  
BLOOMFIELD

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENT DRAFT, AGREEMENTS, TEXT, LOANS  
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**Copy:** SINGLE  
**Draft Date:** 19 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
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**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** ALSO FOR USMTN  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Litigation Codes:**  
**Litigation History:**  
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**Message ID:** 8e448c9a-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 LISBON 3478, 78 LISBON 3395, 78 LISBON 2798  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 10 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2639757  
**Secure:** OPEN  
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**Subject:** IMF AGREEMENT: GOP RELEASES LETTER OF INTENT  
**TAGS:** ECON, PO, IMF  
**To:** STATE USEEC MULTIPLE  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014